fisher funds

FROM THE undergrowth

APRIL08

For years we have extolled the virtue of thinking long-term, but in this instance we are going to break our own rules and highlight the tentative signs of a bottoming in world share markets seen over the past three weeks. Not fair, you say, three weeks means nothing after three months of awful performance. You're right, but we all need some positive news after the second worst quarter I've seen in my career, and I for one am delighted that the underlying value of some of our companies is finally being recognized. I'm happy to give Confucius the benefit of the doubt (see below) and look forward to the success to come!

At a glance

As at 31st March 2008

Unit Prices ($)

NZ Growth Fund	3.1527
Australian Growth Fund	1.6567
International Growth Fund	0.9892
Fledgling Fund	1.1176
KiwiSaver	0.8622

Fund Sizes ($m)

NZ Growth Fund	104.3
Australian Growth Fund	92.3
International Growth Fund	4.6
Fledgling Fund	2.8
KiwiSaver	22.0

Performance (March 2008)

NZ Growth Fund	-6.0%
Australian Growth Fund	-13.8%
International Growth Fund	1.6%
Fledgling Fund	-4.5%
KiwiSaver	-3.0%
NZ50 Gross index	-3.1%
S&P/ASX 300 ($NZ)	-3.7%
MSCI Global Small Cap Index	0.3%

Your Portfolios

What has been going on since we last spoke?

World share markets have not become any easier to understand or predict over the past month. The same concerns and worries that emerged in January exist today, though the behaviour of the some of the key players, notably the Federal Reserve and the Bank of England, has certainly helped markets avoid the more extreme reactions, and on certain days, there have been periods of calm and glimpses of optimism.

While it is tempting to look for culprits and consider changing the way we do things, it is important to acknowledge that this market environment has been unusual and it would have taken superhuman skills to have avoided at least some of the pain wreaked on world markets of late. In managing your portfolios, we could perhaps have reduced some of the losses by having a relatively lower exposure to certain stocks – but these weightings enabled us to achieve some of the spectacular returns of the past, and early signs suggest that they may lead us out of the downturn. We could have cashed up the portfolio, and even if we had done this in late January, we would have avoided some of the losses, but then we would have been caught sitting in cash when the rebound occurred. And this is where the newsletter gets interesting …

We have talked in the last few newsletters about our historical experiences in downturns and the subsequent recoveries. We have talked about how markets do not generally rebound or recover in a uniform fashion, rather, selected stocks bounce back having been oversold, and others may rebound after a catalyst such as a profit announcement or corporate activity. Two very real and significant examples of this in the past three weeks (and there we go again, focusing on short-term performance!) are Pumpkin Patch and Rakon. The Pumpkin Patch share price lifted 22% from March 17 to March 31. The Rakon share price lifted 37% from March 18 to March 31, making it the third best performer in the New Zealand market for the month of March. Quiet achiever, Freightways, also put in a solid performance in March, lifting 6% for the month. These were significant performances, and just to put them in perspective, the New Zealand share market lifted just 1% from March 18 to March 31. By the time you receive this newsletter, these two share prices may have retreated slightly, or they may have continued their strong run, but they are good illustrations of the merits of focusing on the underlying value and progress of individual companies rather than wasting time second-guessing the likely turning point for the share market as a whole. To balance our commentary, we need to highlight the disappointing performances of Mainfreight and Michael Hill whose share prices fell 9% during March, but remember that Mainfreight had lifted 9% during February, and Michael Hill has been one of the best performing stocks over the past twelve months.

> "The superior man makes the difficulty to be overcome his first interest; success only comes later."
>
> Confucius

Your Companies

A summary of news from your companies in the past month

There has been little in the way of company news from New Zealand and Australia during March, but we have summarized below the profit results from our international companies. Ken and Frank have also provided updates on our International and Australian funds. We don't envy Frank trying to logically explain some price movements which are clearly more about emotion than logic.

Company Name	Profit Increase/ Decrease	Share price movement %	Good, bad or indifferent result?	Points of interest
Celera	200%	4.7%	G	Second consecutive result with accelerating profits
Conceptus	44%	8.8%	G	Awareness and adoption of their procedure is gaining critical mass
EBIX	169%	-2.6%	G	All 4 divisions were better than expected
Equinix	55%	-4.1%	G	Raised guidance for profit growth in 2008 to 67%. They are now realizing the benefits of being a global company and announced expansions of their facilities in Asia and Europe.
Hansens	95%	-14.9%	G	Monster energy drink continues to gain market share in a category growing at 25% pa
Home Inns	38%	-27.4%	I	Core earnings solid but overall earnings distorted by an acquisition. New hotel openings in 2008 are on track with expected earnings growth of 65%.
Hongguo	22%	-13.4%	G	Raised guidance for new store openings in 2008 from 100-150 to 180-200 stores
Icon Plc	37%	-1.8%	G	Had a record quarter for new bookings with 75% of 2008 sales already in backlog
Jamba Juice	0%	6.0%	B	Impacted by the U.S recession, but an agreement with Nestle, new store openings and the introduction of breakfast should drive sales in 2008
Jumbo	22%	2.3%	I	While a port strike in Greece is currently impacting business, management still expects 15% earnings growth annually for the next 3 years.
Micros	38%	5.1%	G	Won high profile contracts from around the world including Burger King, Hilton and Omni hotels
Midas	-12%	-13.0%	I	They remain the market leader and continue to win new contracts leading to substantial earnings growth in the future
Midland Holding	340%	-29.9%	G	As a market leader they are benefiting from a favourable industry dynamic
OSI Pharma	230%	4.0%	G	Sales of their lead product Tarceva continues to grow globally. The company raised earnings growth guidance for 2008 to 27%.
Ports Design	45%	-5.6%	G	A new company added to the fund in March. After reporting a strong profit result on March 25 the stock rallied 25%
Raffles Education	56%	-22.3%	G	Has high sales and earnings visibility due to students enrolling for 2-3 years programs
Roth & Rau	207%	-24.5%	G	Raised guidance for 2008 as they have experienced a rapid acceleration of orders
Sciele	36%	-5.8%	G	As a healthcare company growth they are not impacted by the economy
Wirecard	94%	-0.7%	G	Management expects earnings growth of 45% in 2008

During the last three months we added 15 new companies to the International Growth Fund to bring the total to 22. We have another 10 companies where we are either finalizing our due diligence, waiting for a company specific catalyst or looking for a more attractive buy level. In addition, we more than doubled our invested proceeds to 30% during the quarter.

While the fund is built on a company by company basis, there are some overall trends and themes emerging:

1. The urbanization in China driven by the emerging middle class: Home Inns, Hongguo, Ports Design, Raffles Education, Midas.
2. Businesses that have been, and continue to be, successful in the U.S. and are now growing globally: Equinix, Hansens, Micros, Ebix.
3. Healthcare companies (generally not impacted by the economy): Conceptus, Icon, Sciele, Celera, OSI Pharmaceuticals, Stratec Biomedical
4. Increased utilization of the Internet: Equinix, Hong Kong Telecom, Wirecard

In addition to the 30% of capital invested in companies we have another 45% of capital in foreign currencies. This is not just because we believe the NZ Dollar is overvalued but also in preparation for investing in our target companies.

If you want any information on the companies in the international portfolio (we are conscious these are not household names) please call us.

Our Australian Growth Fund had another tough month. A poor global market environment, horrible liquidity in Aussie smaller companies and a post reporting season news vacuum that left share prices rudderless on a wildly tossing sea all contributed to poor returns. Our portfolio underperformed the market although this was on no news flow, with liquidity being the driver.

Of the biggest contributors to negative returns there was no specific news leading to poor returns. Arrow's underperformance, if we were to speculate, seems to stem from the market's concern about increasing volumes of gas coming into various LNG projects in Gladstone. There may indeed be a little more gas supply over next couple of years, slowing down the expected increase in gas prices, but it will deliver near term earnings. We do not think there are any material problems for Arrow but it seems to be the market's 'worry du jour'.

Aevum's poor return over the month is harder to rationalise with the stock at one point trading at an over 25% discount to its NTA. The market concerns here (although liquidity is probably as material as anything fundamental) may be centred around the outlook for the property market (as they are, inappropriately, for Ryman Healthcare in NZ). The CEO, Simon Owen, noted that they are raising prices consistently month after month and that occupancy is well above the targeted 95%. Simon's focus right now is getting their current development pipeline completed as soon as possible as there is significant demand for the stock.

A bird's eye view

What's new at Fisher Funds?

Contrary to recent media speculation, there have not been a whole lot of new or negative developments at Fisher Funds in the last month. Rather, we have been focused on our portfolio stocks and adhering to the investment strategies that have proven successful for us for more than a decade. We did announce in the middle of the month, the re-opening of our New Zealand Growth Fund and simultaneously confirmed that the NZ Superannuation Fund had decided to assume direct management of the portfolio that we previously managed for them. This is something that we have been talking about with the NZ Superannuation Fund for some time, as we have been conscious that the size of their portfolio was limiting our ability to invest in our preferred companies on behalf of you, our retail investors. We had closed the NZ Growth Fund to new investment in October 2007, and this had proved frustrating for investors wanting to access our New Zealand portfolio of companies, particularly in recent months as some of our companies starting trading at very compelling prices. You can expect to see us promoting our NZ Growth Fund in the months ahead because we believe that its prospects are attractive and that as investors realize that the worst may be behind us, we expect that they will want access to the New Zealand share fund that has been the best performer over many years.

Elsewhere, it has been business as usual at Fisher Funds, albeit in a challenging environment. You may be interested in an experience that one of our investors, John Pauwells, shared with us last month:

"There was a big mean Mountain Biker (me) in the Port Hills of Christchurch this morning blatting at typical high speed, when a Kingfisher's flight path was severely compromised! The result was the Kingfisher couldn't out-fly the wake turbulence from the mountain biker and acrobatically landed in a ditch upside down and very flustered. When the mountain biker turned back, miraculously the bird slowly righted itself and with incredible strength and determination picked itself up and eventually flew away. Keep up the good work and stay focussed :-)"

Apart from this being a lovely story, we have to add our own post script. One day in early March, a kingfisher crashed into our office window and fell into a crumpled heap. Hugh Fisher climbed out the window, brought the bird inside and nursed it for a time, before placing it on the barbecue outside. Like our John's little friend, the kingfisher soon shook itself awake and flew off happily. (John suggested the kingfisher's recovery might have been hastened by his placement on the barbecue!)

These stories may prove allegoric … we have enjoyed the "shaking off" of world share markets over the last few weeks … long may they continue!

Your questions

We share our response to some of the questions received from you during the month

Q: I see Fisher Funds sold 6 million shares to Rod Duke. Can you explain this given in the March Undergrowth you said that the share price decrease appears well overdone.

A: We sold a Pumpkin Patch stake to Rod Duke to fund redemptions from a couple of our premium clients. Rather than sell a parcel of every company in the portfolio in a very illiquid market, which would doubtless have put pressure on every share price. It made sense to complete this one-off placement to a long-term, enthusiastic owner who shares the same vision for Pumpkin Patch as we do. We have maintained a meaningful holding in Pumpkin Patch and have benefited as its share price has rebounded recently.

In normal circumstances, if we had to realize cash, we would sell across the board to maintain target weightings. But these are not normal circumstances, and selling one stake rather than eleven has been beneficial as other prices have since strengthened as buyers have had to bid more to get any volume.

Q: I have just re-read the March newsletter and in particular the point that Carmel makes about previous downturns. But previous downturns seem rather inconsequential compared with the current deepening incline. Does this not imply that past experience may not be a valid guide to future recovery, either in the magnitude or duration of that recovery?

A: Every market cycle is different, and so relying on history to provide guidance is dangerous. This downturn is certainly a sharp one and has surprised us, but the current phenomenon of share prices bearing little resemblance to the underlying companies, and the indiscriminate selling by investors wanting to get their money out of the share market as soon as possible is something that we have experienced several times before. Clearly we have no magical powers to predict the precise bottom of this current cycle, but we expect history to repeat since the underlying quality and earnings momentum of our portfolio companies remains strong.

Q: Of concern to me is that in your report card you quote the reason for the poor performance of the Australian ABC shares is the executive margin loan position. I would have thought that your Australian analysts would have picked this up from their analysis of the accounts and key people?

A: You are correct in saying that we pride ourselves on knowing our companies better than anyone else, and yet we got caught out along with everyone else in the case of ABC. The ABC situation was difficult in that the margin calls related to the CEO personally. Information about how a CEO has financed his share ownership is not publicly available and we could never have known the extent or terms of his margin loans. As it happens though, even if we knew that a chief executive had borrowed money to buy a shareholding in his company, we would not view this as a negative. Indeed, we like to see our management teams own shares in their companies because then their interests are aligned with ours, rather than them just being salaried employees.

Fund facts

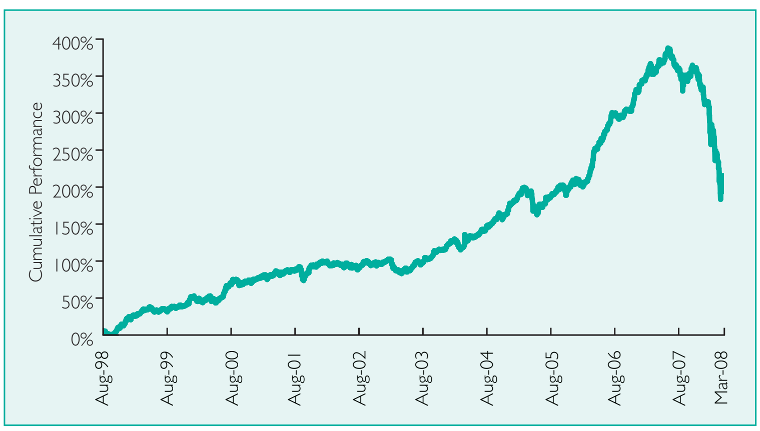
Fund Performance

Fund Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-32.0%	-4.8%	2.7%	11.5%	12.6%
Australian Growth Fund	-30.3%	-8.3%	na	na	3.7%
International Growth Fund	na	na	na	na	-1.1%*
Fledgling Fund	-27.0%	-5.4%	4.0%	5.4%	1.9%
KiwiSaver	na	na	na	na	-13.8%*
Market Indices					
NZ50G	-15.5%	-3.2%	4.5%	12.4%	
90day bank bill	8.8%	8.3%	8.0%	7.2%	
S&P/ASX300 (Calculated in $NZ)	-4.7%	6.4%	16.4%	19.5%	
MSCI Global Small Cap Index ($NZ)	-21.0%	-13.8%	3.2%	11.0%	

*NB... annualised returns, after tax and fees. Returns marked with * have not been annualised.*

March's Biggest Movers	
New Zealand	
Opus International	11%
Rakon Limited	6%
Comvita	-22%
Sealegs	-27%
Australia	
Credit Corp	37%
DWS Solutions	-27%
Arrow Energy	-29%
ABC Learning	-31%
International	
Raffles Education	-22%
Roth & Rau	-24%
Home Inns	-27%
Midland Holdings Ltd	-30%

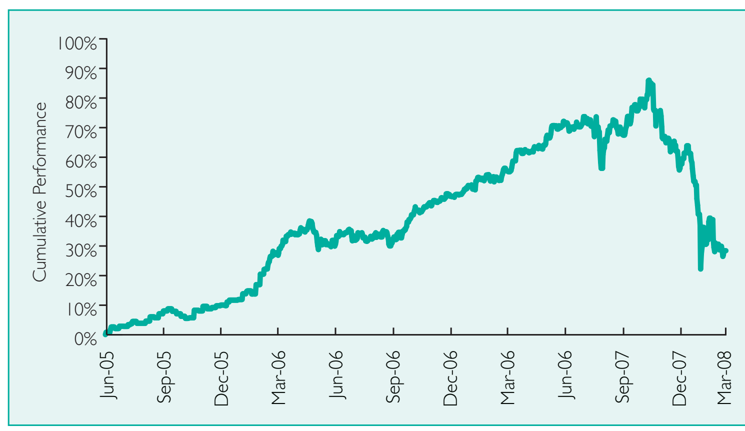
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings - Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZ Exchange, Opus International, Pumpkin Patch, Rakon Limited, Ryman Healthcare, Sealegs.

Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings - ABC Learning, Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund

The International Growth Fund has only recently been launched. The Fund's objective is to provide New Zealand investors access to a hand-picked portfolio of international companies designed to maximize returns while providing greater diversity on an industry, economic and geographic level.

Fund Inception October 2007

Portfolio Holdings – Celera, City Telecom, Conceptus, EBIX Inc, Equinix, Gameloft, Hansens Natural, Home Inns, Hongguo, Icon PLC, Jamba Juice, Jumbo, Micros, Midas, Midland Holdings, OSI Pharma, Ports Design, Raffles Education, Roth & Rau, Sciele Pharma, Stratec Biomed, Wirecard.

Fledgling Fund

Fund Inception December 1999

Portfolio Holdings - Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZ Exchange, Opus International, Pumpkin Patch, Rakon Limited, Ryman Healthcare.

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